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Japan's Economy Shows Sluggish Growth

Three months ago economists said the news concerning Japan's rapid rate of economic expansion was too good to last. Even these economists, however, were a little surprised after the Economic Planning Agency released in late September the April to June 1991 figures that showed Japan's gross national product grew a real, seasonally adjusted 0.5 percent from the quarter before; these data translated to 2 percent growth on an annual basis. In the January to March period, by contrast, GNP had jumped an annualized 11 percent (see Table). The second quarter figures represented the slowest quarterly rate of growth in exactly two years.

Government officials, and some independent experts, downplayed the importance of the second quarter data. After the strong first period a significant slowdown was inevitable, they suggested. In fact, to the extent that EPA's critics were correct in pointing out technical deficiencies in the first

Japan's Real Gross National Product at Constant (1985) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1989	FY 1990	July-September 1990	October-December 1990	January-March 1991	April-June 1991
Gross National Product	Y388,200.2	Y410,487.3	Y407,432.8	Y410,021.2	Y420,903.7	Y423,028.3
	(4.8%)	(5.7%)	(4.6%)	(2.6%)	(11.0%)	(2.0%)
Personal Consumption Spending	225,493.4	233,590.7	233,453.1	232,841.7	235,147.4	239,293.0
	(4.1%)	(3.6%)	(0.6%)	(-1.0%)	(4.0%)	(7.2%)
Private Residential Construction	21,712.5	23,916.3	24,616.2	24,218.7	23,525.9	21,943.3
	(0.7%)	(10.1%)	(25.9%)	(-6.3%)	(-11.0%)	(-24.3%)
Private Fixed Nonresidential Investment	78,954.0	89,540.0	87,867.2	90,949.6	92,848.6	92,805.9
	(14.1%)	(13.4%)	(9.4%)	(14.8%)	(8.6%)	(-0.2%)
Change in Business Inventories	3,616.1	3,164.1	3,512.8	2,710.5	3,129.9	3,470.0
	(*)	(*)	(*)	(*)	(*)	(*)
Government Current Expenditures	33,651.5	34,135.4	33,945.9	34,185.3	34,495.3	35,004.9
	(1.9%)	(1.4%)	(0.5%)	(2.9%)	(3.7%)	(6.0%)
Government Fixed Investment	25,270.4	26,043.0	26,018.8	26,046.1	26,144.0	27,030.1
	(1.0%)	(3.1%)	(0.9%)	(0.4%)	(1.5%)	(14.3%)
Change in Government Inventories	-55.5	126.7	603.0	-724.7	169.4	-19.2
	(*)	(*)	(*)	(*)	(*)	(*)
Net External Sector	-442.1	-28.9	-2,584.2	-206.0	5,443.2	3,500.3
	(*)	(*)	(*)	(*)	(*)	(*)
Exports of Goods and Services and Factor Income Received	68,574.3	73,948.7	70,837.4	73,259.1	77,580.1	75,441.1
	(15.6%)	(7.8%)	(-16.3%)	(14.4%)	(25.8%)	(-10.6%)
Imports of Goods and Services and Factor Income Paid	69,016.4	73,977.6	73,421.6	73,465.1	72,136.9	71,940.8
	(20.2%)	(7.2%)	(-17.7%)	(0.2%)	(-7.0%)	(-1.1%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

quarter results (see JEI Report No. 24B, June 28, 1991), the second quarter numbers could be read as a corrected version of where the economy stands; taking the first two quarters of 1991 together the economy would appear to be very healthy. By the criteria applied to most industrial economies, in fact, even 2 percent annual growth in the second period does not look bad at all.

EPA's relatively upbeat assessment of the data appears well-founded with respect to the statistics relating to the foreign sector. In contrast to the first quarter, net exports were a drag on the economy, shaving 0.5 percentage point off the quarterly growth rate. To a substantial extent this result reflected the return of Japanese tourists to overseas vacation spots following a sharp drop in the first quarter when hostilities in the Middle East discouraged all trips abroad. Overseas tourism is not likely to surge to the same extent in future periods.

Except for government officials in their public pronouncements, however, most analysts viewed the latest figures with considerable concern, in part because they believe that the economy is in worse shape than the data showed. The most striking single figure in the latest statistics was private plant and equipment spending, which slipped an annualized 0.2 percent from the previous quarter, the first quarterly decline in two years. EPA officials downplayed the significance of the drop, arguing that large corporations increased their spending. Private-sector economists focused on the other side of the coin: a sharp decline in spending by small companies. One could argue that small firms are more sensitive to capital markets and experienced the bite of higher interest rates sooner than large companies; absent much lower interest rates, big firms could be expected to feel the pinch soon as well. Other data also suggest that the worst may be yet to come. Orders for equipment (excepting ships and orders by electric utility companies), a statistic considered a leading indicator of corporate investment spending, were down sharply in the quarter. In another sign that continued high interest rates orchestrated by the Bank of Japan are having an effect, real investment in housing dropped sharply again, putting it at the lowest level since the October-December 1989 period.

The sharp rise in inventory levels also was telling, most probably reflecting unanticipated weakness in demand. The immediate effect of the upward movement for the second straight quarter was to push quarterly growth 0.1 percentage point higher. Firms eventually could trim their inventories, however, by reducing production below levels they otherwise would reach, and this would have probable negative effects on related sectors of the economy.

In addition, appears to be part of rising criticism of EPA's data collection effort, private economists even questioned the one apparent bright spot in the recent figures. Consumer spending was up 7.2 percent on an annual basis from the quarter before and boosted the overall growth rate by a full percentage point. One critic suggested, however, that much of the apparent rise came from automotive sales, which other data suggest are not healthy at all. Furthermore, more recent data on department store sales point to a marked slowdown in consumer spending activity, implying that, even if the consumer spending figures for the April-June period are accurate, the current quarter is not likely to look nearly as strong.

In short, private-sector economists tend to believe that the second quarter figures are a forerunner of even worse numbers for the current quarter,

when GNP may register negative growth. Even though recent forecasts, such as one from the Industrial Bank of Japan, Ltd., call for GNP to grow by 3.5 percent in the April 1, 1991 to March 31, 1992 fiscal year, these estimates reflect an important arithmetic reality. Given the spillover effect of rapid growth toward the end of the previous fiscal year, the economy would grow by 3.1 percent for the entire fiscal year even if the three remaining quarters of fiscal 1991 were to show no growth at all. Should the 3.1 percent growth figure, or something close to it, materialize by next spring, it would be evidence that Japan had experienced a chilly economic season or two.

Douglas Ostrom

Japanese Government Introduces United Nations Peacekeeping Bill

Reflecting growing public support for a more engaged foreign policy, the Japanese government introduced legislation September 19 that would allow lightly armed military personnel to participate in United Nations-sponsored peacekeeping operations. If enacted, this legislation would set the stage for the deployment overseas of as many as 2,000 Self-Defense Forces members -- the first such dispatch in Japan's postwar history. The government of Prime Minister Toshiki Kaifu also sent to the Diet a separate, related bill that would allow SDF personnel to engage in overseas disaster relief missions. Both measures, in effect, are belated responses to international criticism that Japan did not support in a timely or an appropriate manner multilateral coalition efforts to expel the forces of Iraqi President Saddam Hussein from Kuwait (see JEI Report No. 6A, February 15, 1991). Tokyo hopes to demonstrate to its allies through this legislation that Japan is willing as a global economic power to assume greater responsibility for maintaining world peace.

In a press conference following the cabinet's September 18 approval of the legislation chief cabinet secretary Misoji Sakamoto sought to preempt criticism that the bills might violate provisions of Japan's constitution that for more than 40 years have been interpreted as barring the dispatch overseas of SDF equipment and personnel. Use of weapons would be "minimal" and SDF personnel would be withdrawn from the peacekeeping operation if a ceasefire broke down, Mr. Sakamoto reportedly stated.

Nearly one year ago Mr. Kaifu was forced to withdraw a similar proposal because of stiff resistance from the opposition parties, his own Liberal Democratic Party and certain Southeast Asian countries (see JEI Report No. 44B, November 16, 1990). But a shift in domestic and international opinion has accompanied the winding down of the Cold War, the victory of the coalition forces in the Persian Gulf War and, the related, renewed importance of the United Nations as a peacekeeping forum, the chief cabinet secretary was quoted as saying. Indeed, Japanese opinion polls since the beginning of the year have shown a steady increase in support for SDF involvement in U.N.-sponsored peacekeeping activities (see JEI Report No. 31A, August 16, 1991). According to some analysts, the Japanese government's decision to send minesweepers to the Persian Gulf last April to assist postwar cleanup of the mine-ridden area most likely would not have been possible without these changes in domestic mood and global political conditions (see JEI Report No. 17B, May 3, 1991).

Also, unlike last year, the LDP-led government worked closely with the two centrist opposition parties, Komeito and the Democratic Socialist Party, in

NOTE

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